

**The Exempt Organizations Function's
Examination Workplan Can Be Improved to
Increase Its Effectiveness**

September 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 25, 2001

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT
ENTITIES DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Exempt Organizations Function's
Examination Workplan Can Be Improved to Increase Its
Effectiveness

This report presents the results of our review of the Exempt Organizations (EO) function's annual examination workplan. The objective of the review was to assess the effectiveness of the EO function's examination planning process.

In summary, we found that the EO Examinations' management had not considered examination results, such as the percentage of examinations resulting in no change to the information reported on the return, when they developed and monitored the workplan. Instead, EO officials used workload indicators such as the average number of staff days spent on examinations and the number of examinations closed.

Also, we determined that work planning practices did not ensure that the selection of returns for examination focused on areas with a known potential for change to the information reported on the returns. This was especially critical since the EO function anticipated redirecting 42 percent of available examination time in FY 2001 to process taxpayer requests for exempt status.

We noted that the EO function established a Compliance Council to develop compliance initiatives and to recommend compliance projects to profile and identify areas of noncompliance for future examinations.

Management's Response: The Commissioner, Tax Exempt and Government Entities Division, has implemented our recommendations by establishing procedures to:

- Routinely analyze prior examination results to identify patterns of noncompliance and to develop and monitor the workplan to ensure future examinations are focused on those areas most in need.
- Ensure examination coverage includes only those types of returns where there is a higher potential for noncompliance.
- Monitor progress on examinations included in the annual plan to ensure that they are focused and achieve the goals of the program.

These actions, together with the activities of the Compliance Council, should help ensure that the examination workplan for the EO function directs resources to areas with a high potential for noncompliance. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or John Wright, Acting Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 927-7077.

**The Exempt Organizations Function's Examination Workplan
Can Be Improved to Increase Its Effectiveness**

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The Exempt Organizations Function's Examination Workplan Can Be Improved to Increase Its Effectiveness

Background

The Tax Exempt and Government Entities (TE/GE) Division of the Internal Revenue Service (IRS) has responsibility for ensuring compliance with the Internal Revenue Code sections and regulations that govern organizations exempt from Federal income tax. Currently, there are more than 1.5 million exempt organizations (including an estimated 350,000 churches and other religious organizations) controlling assets of over \$2 trillion.

The mission of the Exempt Organizations (EO) function's field examination program is to identify and correct noncompliance. Key goals include conducting focused, efficient examinations; resolving issues at the lowest possible level; and ensuring consistency and fairness in the application of law.

Prior to Fiscal Year (FY) 2001, the National Headquarters Office was responsible for establishing general work priorities through the workplan guidelines. Each of the four Key District Offices (KDO) prepared their own workplan based on these guidelines. Although the National Headquarters Office had program authority over the EO function in the KDOs, it did not have direct line authority. This type of structure lent itself to inconsistencies in Examination program content and accomplishments among the KDOs.

In April 2000, the TE/GE Division adopted the Centralized Examination Management concept. As a result, examination-related activities (i.e., planning, classification, closing, and review) were centralized to improve consistency, coordination, and resource usage. In addition, six Area Offices replaced the four KDOs. They report to the Director, EO Examinations, located at the new centralized examination site. Under the Director, the Examination Planning and Programs (EPP) staff has

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responsibility for developing the workplan guidelines¹ and preparing and monitoring the workplan.

The FY 2001 workplan guidelines and workplan were prepared jointly by the National Headquarters Office and EPP staff as responsibility transferred from National Headquarters to the centralized examination site.

Direct examination time is allocated to the following categories: Coordinated Examination Program (CEP), Gaming, Local and National Samples (i.e., compliance projects), and Casework.² Resources are budgeted to these areas based on historical data comparisons of the number of closed examinations and staff day accomplishments. In addition, consideration is given to in-process work. The amount allocated to Casework is predicated on the amounts budgeted to the other examination categories.

The following table illustrates the breakdown of direct examination time provided in the FY 2001 workplan:

Direct Examination Time Allocations

Examination Category ³	Direct Time
Casework	53%
CEP	31%
Compliance Projects	10%
Gaming	4%

Source: EO Examinations National Workplan.

¹ This document, entitled "Implementing Guidelines," provides direction for preparing the workplan of how resources will be applied to programs that support the major strategies and operational priorities of the Operating Division and functional units. This report will refer to this document as "workplan guidelines."

² Casework arises from known noncompliance activities of specific taxpayers or where IRS action is required. Examples include referrals, claims, emerging issues, and general case examinations.

³ The remaining time was allocated for training cases and the voluntary compliance on a withholding program.

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Examination Results Can Be an Integral Element Used in Developing and Monitoring the Workplan

We conducted this audit from February to June 2001 at the National Headquarters Office, the centralized examination site, and the Great Lakes, Northeast, and Pacific Coast Area Offices. This audit was performed in accordance with *Government Auditing Standards*; however, we did not verify the accuracy of the data obtained from the EO function's management information reports. Detailed information on our audit objective, scope, and methodology is present in Appendix I. Major contributors to the report are listed in Appendix II.

EO Examinations' management has not considered examination results, such as no change rates,⁴ when developing and monitoring the workplan. For FY 2001, the EPP staff made very limited use of examination results in planning and did not use them in monitoring the workplan. Instead, they used workload indicators such as staff day accomplishments, the calendar time to complete examinations (cycle time), and the number of examination closures.

We were advised that examination results were used only when assessing the results of prior compliance projects. Reasons for not using examination results more extensively included concerns about the reliability and usability of data provided by the EO function's management information systems. For example, reports generated from these systems did not adequately break down the results of prior examinations to allow management to effectively determine what types of organizations are more likely to be noncompliant. EO management also expressed caution about emphasizing examination results in their monitoring efforts because they did not want to appear to be imposing goals on the Area Offices.

We did not attempt to verify the reliability of the data contained within the EO function's management information systems. However, we believe the EO function can use the information on past examinations to identify

⁴ This represents the percentage of examinations that resulted in no change to the filed return.

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patterns and characteristics of taxpayers who are likely to be noncompliant.

As for examination results, the Internal Revenue Manual (IRM) allows for their use by national, area, and other levels of management for purposes of allocation of resources, work planning and control, and overall effective functional management. For example, a trend analysis of no change rates could identify areas of noncompliance where resources should be allocated.

Further, the IRM provides that these statistics can be used to make projections for and to assess the effectiveness of particular strategies and initiatives. Such information is intended to help illustrate the potential impact of resource and planning strategy decisions on factors that affect overall compliance, such as audit coverage.

Currently, the EO function's monitoring efforts have focused on accomplishments related to its balanced measures. The TE/GE Division established balanced measures for customer satisfaction and business results (e.g. cases closed, cycle time, and time applied) to track performance of the examination program.

We acknowledge concerns about the use of examination results and agree that balanced measures are important in assessing the EO function's performance. However, it will only be through the proper use of all available data that management can sufficiently guide and measure the EO function's performance in carrying out its examination program mission of identifying and correcting noncompliance. In addition, prior examination results can be used to report to outside stakeholders, such as the Congress, on efforts to ensure compliance among the various segments within the exempt organization population. Further, this information can be used to support future funding requests that will enable the EO function to expand its examination efforts.

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Recommendations

The Commissioner, TE/GE Division, should establish procedures to:

1. Routinely extract and compile prior examination results that would allow the EO function to identify characteristics/patterns of noncompliance.

Management's Response: The EO Examinations function now employs new methods for developing the annual workplan. These methods include the use of examination results in the identification of characteristics or patterns of noncompliance. TE/GE Division management compiled and used examination results in the development of the EO function's FY 2002 workplan and intends to make appropriate use of examination results in developing future workplans.

2. Ensure that the data gathered as a result of implementing recommendation number 1 are used to develop and monitor the workplan to ensure future examination resources are focused on those areas most in need.

Management's Response: The EO Examinations function now employs new methods for developing the annual workplan. These methods include the use of examination results in the identification of characteristics or patterns of noncompliance. An example of the new approach is the recent completion of the first draft of an EO market segmentation study. This study looks at the compliance characteristics of different groups of EO customers, and will, among other things, help the TE/GE Division apply examination resources effectively.

The Exempt Organizations Function Needs to Ensure Casework Examinations Focus on Areas Where There Is Known Potential for Noncompliance

According to the IRS Strategic Plan, it is essential that the IRS apply its limited resources where they will be of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights, and reducing the need to burden those who do comply.

The EO Examinations function's work planning practices did not ensure that Casework examinations focused on areas with a known potential for noncompliance. This condition

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existed because the Casework category was not properly managed to ensure coverage in areas of known noncompliance or to limit the amount of General Casework. In addition, the workplan was not monitored and adjusted to ensure that Casework examinations identified and corrected noncompliance. As previously stated, monitoring efforts have focused on items related to the EO function's balanced measures and not on outcomes from the examinations.

Historically, Casework has made up a large part of the examination workload. According to the workplan guidelines, Casework arises from known noncompliance activities of specific taxpayers or where IRS action is required. Project codes identify the different types of Casework, such as referrals, claims, previously identified areas of noncompliance (e.g. hospitals and lobbying and political activities), and General Casework examinations.

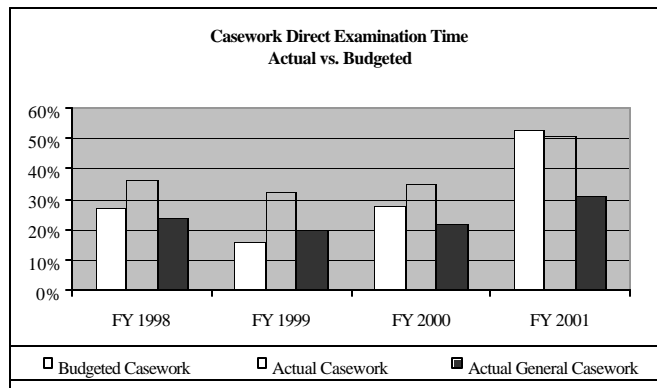
In FYs 1998 through 2000, the amount of direct examination time budgeted to Casework ranged from 16 percent to 28 percent.⁵ However, the actual amount of time spent on Casework exceeded budgeted amounts in each year. This occurred because deviations in any of the other examination categories directly affected the amount of time spent on Casework.

The amount of Casework time budgeted in FY 2001 increased significantly from that in previous years. According to EO management, much of this increase can be attributed to the TE/GE Division's reorganization implemented in late FY 2000 and the restructuring from four KDOs to six Area Offices. As a result, the EO function decided not to allocate resources to new compliance projects until it had the opportunity to establish a national Compliance Council designed to add consistency in the selection of these projects.

⁵ The time allocated to Casework is predicated on the amounts budgeted to the other examination categories (CEP, Gaming, etc.).

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The following graph illustrates the percentage of direct examination time budgeted for Casework compared to the actual percentage of Casework and General Casework for FYs 1998 through 2001 (actual amounts for FY 2001 are reported through March).



Source: EO Function Management Information Reports.

Our analysis of the EO function's accomplishment statistics for FYs 1998 through March 2001 showed that a majority of total Casework examinations were comprised of General Casework. We believe EO management should plan to limit their dependence on these types of cases and ensure the returns selected for examination are from areas with a higher potential for noncompliance. According to EO function planning documents, General Casework examinations are considered "non-production cases" because they do not have a potential issue identified for examination. They are selected to fulfill Area Office coverage needs with emphasis on case grade and location (to match the experience level and location of an examiner). EPP staff referred to General Casework returns as the "least effective type of Casework."

During the period of our analysis (FY 1998 through March 2001), there were a total of 12,845 Casework examinations, of which 8,937 were General Casework. These General Casework examinations had a no change rate of 50 percent, while the remaining 3,908 examinations, which were based on referrals, claims, and previously identified areas of noncompliance, collectively had a no change rate of 22 percent. The no change rate in General

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Casework has increased from 40 percent in FY 1998 to 61 percent thus far in FY 2001.⁶ A high no change rate may indicate that unproductive cases are being examined.

In FYs 1999 and 2000, the EO function introduced additional guidance into the workplan to reduce the amount of General Casework examinations. Specifically, these workplan guidelines contained caveats stating that overall time for General Casework should not exceed 15 percent of direct examination time. Because this guidance was not enforced, the actual time spent on General Casework was 20 and 22 percent, respectively for FYs 1999 and 2000.

Further, the FY 2000 guidelines directed Area Office managers to plan for 10 percent of direct examination time in the following areas:

FY 2000 Casework Emphasis Areas

Project Code	Description
052	Private College or University
075	Hospitals
080	Public College or University
112	Healthcare Joint Ventures
113	Joint Partnership Initiative
115	Other Healthcare (nursing homes)

Source: FY 2000 EO Examinations Workplan Guidelines.

However, management did not ensure these areas were covered, and only 1.16 percent of direct examination time was spent conducting examinations in these areas.

As part of the FY 2001 workplan, the EO function notified the Area Offices that time was allocated for priority Casework. Specifically, they were to conduct 300 examinations in each of 5 areas (a total of 1,500 nationwide) where there was higher potential for adjustment. These areas included:

⁶ The no change rates for FY 1999 and 2000 were 52 percent and 57 percent, respectively.

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FY 2001 Priority Casework

Project Code	Description
200	Internal Revenue Code (I.R.C.) ⁷ 509(a)(2)
201	Net Operating Loss
202	Social Club with Public Use >15%
203	I.R.C. 501(c)(7) with Form 990-T Sheltering
204	Form 990-T Showing Loss After Cost of Goods Sold

Source: EO EPP Staff.

As of March 2001, only one examination had been conducted in those areas. The Manager of EPP attributed this to the Area Offices expending their resources to reduce overage cases that were affecting cycle time and a communication problem between the EPP and Classification offices pertaining to the priority of assignment of these cases. We believe EO management monitoring activities could have better ensured that priority examinations instead of General Casework examinations were conducted.

Because of the lack of effective oversight and guidance, the EO function did not effectively use its limited examination resources to focus on areas with a greater potential of noncompliance. This is especially critical since the EO function anticipated directing 42 percent of available direct examination time to process the high priority determination workload in FY 2001.⁸ In addition, auditing unproductive areas can add unnecessary burden to taxpayers.

⁷ I.R.C., 26 U.S.C.

⁸ Examination personnel are also responsible for processing determination applications that cannot be completed by the understaffed centralized site in Cincinnati. About 80,000 applications are received each year.

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Recommendations

The Commissioner, TE/GE Division, should:

3. Establish procedures to ensure coverage in Casework project codes where there is a higher potential for noncompliance, thus reducing the EO function's dependence on General Casework.

Management's Response: For FY 2002, the EO workplan states, "In FY 2002, we will not, except in extraordinary circumstances, devote resources to start new examinations categorized as general casework." In addition, the EO function has established a Compliance Council. The EO function intends to continue the work of the Compliance Council and use the results of the recent EO market segment study and similar studies when it develops workplans for future years.

4. Establish monitoring procedures to ensure that the goals established as a result of implementing recommendation number 3 are achieved.

Management's Response: The EO function has two management information reporting systems that monitor general casework. It uses the TE/GE Technical Time Reporting System to monitor the number of staff days applied to general casework project codes. In addition, the EO function uses the Audit Information Management System to monitor the number of return examinations for general casework. It will use these systems to monitor the implementation of the FY 2002 workplan, which contemplates that, except in extraordinary circumstances, the EO function will start no new general casework examinations.

The Exempt Organizations Function's Compliance Initiative to Identify Areas of Noncompliance

In future years, the EO function intends to deploy its resources based on an assessment of risk rather than continuing to rely primarily on coverage goals and responses to current, hot issues. The growing customer populations and complexities require that it become more efficient in its allocation of resources to those areas in need of attention. Assessing risk in each market segment will allow the EO function to determine if its resource

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deployment is reasonable and will provide opportunities to address compliance responsibilities systematically.

To achieve this, the EO function established a Compliance Council in FY 2001. The Council's goal is to develop compliance initiatives that will focus the EO function's efforts on taxpayers more likely to be noncompliant. Thus far, the Compliance Council has identified 35 unique market segments and is assessing the risk of noncompliance within each segment. Based on this assessment, the Council will recommend compliance projects to profile and identify areas of noncompliance within each segment. The EO function plans to use results from these projects to ensure future compliance by educating taxpayers and focusing future examinations on areas of noncompliance.

The EO function plans to implement four of these projects in FY 2002, with additional projects planned for future years. Each project will entail examining between 88 and 100 taxpayers. These projects take priority over Casework. As a result, EO management anticipates a decrease in the amount of Casework. We agree that the implementation of these compliance projects will decrease the amount of time allocated to Casework in FY 2002 and future years. However, Casework will still be a large part of the examination program as in past years when new compliance projects were started (see graph on page 7, FYs 1998 through 2000).

As previously stated, the goal of this initiative is to deploy future resources based on risk. The results of these projects should assist the EO function in focusing future examinations in areas where noncompliance is more likely to exist.

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Appendix I

Detailed Objective, Scope, and Methodology

The objective of this audit was to assess the effectiveness of the Exempt Organizations (EO) function's Examination planning process. To accomplish our objective, we interviewed applicable EO executives, managers, and staff. We also analyzed data available through EO management information reports for Fiscal Years (FY) 1998 through 2001. Specifically, we performed the following audit tests:

- I. Evaluated the process used in developing the current year's examination workplan to identify areas where the FY 2002 workplan could be more effective.
 - A. Interviewed the Director, EO; the Director, EO Examinations; and the Examination Planning and Programs (EPP) staff to determine the reason for centralizing the examination work planning process.
 - B. Interviewed the Director, EO; the Director, EO Examinations; and the EPP staff to determine their responsibilities in developing, preparing, and monitoring the workplan.
 - C. Interviewed Area Office Managers from the Great Lakes, Northeast, and Pacific Coast offices to determine their responsibilities in meeting the requirements of the workplan.
 - D. Interviewed the Director, EO, and the EPP staff to determine the process used in developing the workplan prior and subsequent to centralization.
 - E. Interviewed the Director, EO, and the EPP staff to determine who decides the overall direction of the EO Examinations workplan and whether the plan addresses top management's noncompliance issues.
 - F. Interviewed the Director, EO, and the EPP staff to identify and assess the information used in formulating the assumptions outlined in the workplan guidelines.
 - G. Interviewed Area Office Managers from the Great Lakes, Northeast, and Pacific Coast offices, Internal Revenue Service disclosure personnel, and an employee from the State of Texas to determine the degree of coordination with internal and external sources when formulating the planning guidelines.
 - H. Interviewed the EPP staff to determine their qualifications for preparing and monitoring the workplan.
 - I. Interviewed the Director, EO, and the EPP staff to identify any ongoing internal studies or committees that would affect the future direction of the process.

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- J. Obtained copies of the FYs 1998 through 2001 EO Examinations guidelines and workplans and reviewed and compared them to identify changes in program direction, if any.
- II. Determined if the workplan is effectively addressing EO Examinations' program goal of applying resources to achieve and maintain the highest level of voluntary compliance.
 - A. Interviewed the Director, EO; the Director, EO Examinations; and various Compliance Council participants to evaluate the structure of the newly formed Compliance Council and determined what their role will be in the future work planning process.
 - B. Interviewed the Director, EO Examinations, various Compliance Council participants, and Area Office Managers from the Great Lakes, Northeast, and Pacific Coast offices to determine what the EO function considers to be an effective examination in achieving its goal of increased voluntary compliance.
 - C. Interviewed the Director, EO; the Director, EO Examinations; the Manager, EPP; and various Compliance Council participants to determine the extent related initiatives (e.g. Market Segmentation, Industry Specialization, and profiling) are used in identifying areas for applying resources and measuring accomplishments.
 - D. Reviewed EO Examinations Accomplishments (Automated Information Management System (AIMS)¹ Table 20) for FYs 1998 through March 2001 for the Casework category to determine the effectiveness of each area.
 - 1) Compared casework categories and identified areas with a low or high no change rate.
 - 2) Identified the number of returns examined in each of the casework areas.
 - E. Interviewed the Manager, EPP, and various Compliance Council participants to determine if the EO function has performed a trend analysis to determine the cause for the high no change rate in General Casework.
 - F. Interviewed the Director, EO Examinations, and the Manager and various staff, EPP, and reviewed the Tax Exempt and Government Entities (TE/GE) Division's Strategic Assessment for FYs 2002 and 2003 to determine if the EO function has a strategy to the reduce the no change rate in the General Casework category.

¹ The AIMS is used by the TE/GE Division to control its examination cases. It is also used to produce timely control and management reports.

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- G. Interviewed the Director, EO, and the TE/GE Division's Director of Planning and reviewed the TE/GE Division's Program Plan, dated August 7, 2000, to determine if the EO function has established performance measures to evaluate the effectiveness of its examination program.

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Appendix II

Major Contributors to This Report

Maurice S. Moody, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Joseph W. Edwards, Director

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Diana M. Tengesdal, Senior Auditor

Todd M. Anderson, Auditor

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Appendix III

Report Distribution List

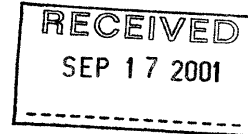
Commissioner N:C
Deputy Commissioner, Tax Exempt and Government Entities Division T
Director, Exempt Organizations T:EO
Director, Exempt Organizations Examination T:EO:E
Manager, Exempt Organizations Examination Programs and Review T:EO:E
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Chief Counsel CC
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Office of Management Controls N:CFO:F:M
Audit Liaison: Tax Exempt and Government Entities Division T

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Appendix IV



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



SEP 14 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:


Evelyn A. Petschek
Commissioner, Tax Exempt and Government Entities

SUBJECT:

Response to Draft Audit Report – The Exempt
Organizations Function's Examination Workplan Can Be
Improved to Increase Its Effectiveness (Audit No.
200110020)

Thank you for the opportunity to respond to your draft report on the processes by which Exempt Organizations (EO) plans its work for forthcoming years.

The report focuses on examination activities leading to and conducted during a major transition period. Your report notes that TE/GE implemented a significant reorganization in late FY 2000. One of the temporary consequences of this restructuring was our decision to hold in abeyance the allocation of resources for new compliance projects until we could create a national Exempt Organizations Compliance Council, whose job would be to help EO identify and focus its compliance efforts upon noncompliant taxpayers.

We have established the Compliance Council, and begun operations. Recently, the Compliance Council presented its first draft market segmentation study of the exempt organizations community. This study divides the exempt organizations community into a number of groups, and analyzes the compliance characteristics of each group. Based on this analysis, the Compliance Council will recommend projects to address each group's unique characteristics. As you note, EO "plans to use [the] results from these projects to ensure future compliance by educating taxpayers and focusing future examinations on areas on noncompliance."

EO's restructured compliance program has therefore moved well beyond the compliance structure that was in place throughout the majority of the period covered by the report. Your observations confirm many of the concerns that led us to revise our program, and your comments will help us make further valuable refinements to our program.

Our comments on the specific recommendations in the report are as follows:

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RECOMMENDATION 1

The Commissioner, TE/GE Division, should establish procedures to routinely extract and compile prior examination results that would allow the EO function to identify characteristics or patterns of noncompliance.

ASSESSMENT OF CAUSES

TIGTA found that, in the transition period covered by this report, examination results, such as no change rates, did not influence the development and monitoring of the workplan.

The EO Examinations function now employs new methods for developing the annual workplan. These methods include the use of examination results in the identification of characteristics or patterns of noncompliance. We have compiled and used examination results in the development of EO's FY 2002 workplan, and we intend to make appropriate use of examination results in developing future workplans. We note, however, that prior examination results have not and will not be our only selection criteria. For example, we must also consider factors such as the need to gather data on various groups within the exempt organizations community, and the need to address issues as they are identified.

CORRECTIVE ACTIONS

Completed

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIALS

Not applicable

CORRECTIVE ACTION MONITORING PLAN

Not applicable

RECOMMENDATION 2

The Commissioner, TE/GE Division, should establish procedures to ensure that the data gathered as a result of implementing recommendation number 1 are used to develop and monitor the workplan to ensure future examination resources are focused on those areas most in need.

ASSESSMENT OF CAUSES

TIGTA found that, in the transition period covered by this report, examination results, such as no change rates, did not influence the development and monitoring of the workplan.

The EO Examinations function now employs new methods for developing the annual workplan. These methods include the use of examination results in the

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identification of characteristics or patterns of noncompliance. We used examination results in the development of the FY 2002 workplan, and intend to make appropriate use of examination results in developing future workplans. An example of our new approach is the recent completion of the first draft of an EO market segmentation study. This study looks at the compliance characteristics of different groups of EO customers, and will, among other things, help us apply examination resources effectively.

CORRECTIVE ACTION

Completed

IMPLEMENTATION DATE

Not applicable

RESPONSIBLE OFFICIAL

Not applicable

CORRECTIVE ACTION MONITORING PLAN

Not applicable

RECOMMENDATION 3

The Commissioner, TE/GE Division, should establish procedures to ensure coverage in Casework project codes where there is a higher potential for noncompliance, thus reducing the EO function's dependence on General Casework.

ASSESSMENT OF CAUSES

TIGTA found that, in the transition period covered by this report, a majority of total Casework examinations consisted of General Casework.

This will not reoccur. For FY 2002, the EO workplan states, "In FY 2002, we will not, except in extraordinary circumstances, devote resources to start new examinations categorized as general casework." In addition, as noted above, EO has established a Compliance Council. The Compliance Council's goal is to develop compliance initiatives that will focus EO's examination efforts on noncompliant taxpayers. The Compliance Council has recently produced the first draft of a market segmentation study that assesses the risk of taxpayer noncompliance in a variety of market segments. EO intends to continue the work of the Compliance Council and use the results of this and similar studies when it develops workplans for future years.

CORRECTIVE ACTIONS

Completed

IMPLEMENTATION DATE

Not applicable

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4

RESPONSIBLE OFFICIAL
Not applicable

CORRECTIVE ACTION MONITORING PLAN
Not applicable

RECOMMENDATION 4
The Commissioner, TE/GE Division, should establish monitoring procedures to ensure that the goals established as a result of implementing recommendation number 3 is achieved.

ASSESSMENT OF CAUSES
TIGTA found that, in the transition period covered by this report, overall time for general casework exceeded the amount of time budgeted for this activity.

The EO function of TEGE has two management information reporting systems that monitor general casework. EO uses the TE/GE Technical Time Reporting System (ETS) to monitor the number of staff days applied to general casework project codes. In addition, EO uses the Audit Information Management System (AIMS) to monitor the number of return examinations for general casework. EO will use these systems to monitor the implementation of the FY 2002 workplan, which contemplates that, except in extraordinary circumstances, EO will start no new general casework exams.

CORRECTIVE ACTIONS
Completed

IMPLEMENTATION DATE
Not applicable

RESPONSIBLE OFFICIAL
Not applicable

CORRECTIVE ACTION MONITORING PLAN
Not applicable

If you have any questions about this response, please call R. M. Daly at (202) 283-2300.